

# Market reforms in the Australian VET sector: Impact and outcomes

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## Abstract

*Over the past decade, federal and State/Territory governments in Australia have promoted the development of a national training market as a key element of VET reform. Contestable funding processes, particularly competitive tendering and User Choice, have been used to redesign relationships among VET providers and clients along quasi-market lines. Competition and choice have been adopted as the central organising principles for VET supply and demand. Despite the radical and unprecedented nature of training market reforms, their efficacy and consequences have not been subject to systematic or independent evaluation. To date, most research on training market reforms has been partial and inconclusive.*

*This paper reports on the findings of the first national survey of Registered Training Organisations (RTOs) about the structure, operation and effects of training markets. The survey was a major part of a Key Priority Project for the ANTA National Research and Evaluation Committee, which aimed to evaluate the impact and consequences of training market reform. The survey findings suggest that training market reforms are having complex and variable effects on RTOs and their clients. Some of the intended outcomes have resulted, while others have not. Key policy issues and implications are considered.*

## Introduction

In 1990, the Deveson Review pronounced the arrival of 'markets for training' and argued that market competition would produce a range of beneficial outcomes not otherwise possible through centralised planning and bureaucratic control by the state. Drawing on economic theory, but unsubstantiated by empirical evidence, Deveson asserted that market-based competition would result in greater choice and diversity, efficiency, responsiveness and quality, without any adverse consequences for access and equity. Subsequent policy statements have echoed such claims (e.g. ANTA 1996).

In 1992, national and State/Territory governments collectively adopted the goal of creating a competitive training market and began redesigning their policy, funding and regulatory frameworks along market lines. The near monopoly of public funding and recognition held by the state-owned and controlled Technical and Further Education (TAFE) providers was progressively dismantled to a significant degree. It was replaced with a competitive market comprising a diverse array of public and private providers competing for public VET funds. Simultaneously, TAFEs were encouraged to become more business-like, entrepreneurial and reliant on income from commercial markets. Although they continued to receive the bulk of public VET funds, they did so mostly within a new framework of quasi-contractual performance agreements.

The redesign of VET along market lines is a radical policy experiment in Australia, if not internationally. Market reform entails major changes to the financing and delivery

of VET, with significant implications for key stakeholders. Government has attenuated its longstanding role as planner, funder and provider of VET, and has increasingly assumed the role of market facilitator, regulator, and purchaser of programs and services. Public and private providers are now viewed as ‘suppliers’ or ‘sellers’ of VET who compete with one another on a ‘level playing field’ for government and private income. Individuals and enterprises are viewed as ‘clients’, ‘buyers’ and ‘customers’ who are expected to pay for the programs and services they use.

Government has moved decisively away from the traditional model of centralised state planning, financing and provision of VET – which aimed to avoid market failure and protect the public interest – to a mixed model comprising a direct (profile) funding sector, ‘quasi-markets’, and open and commercial markets. Quasi-markets are a key innovation and tool of the new public management that has swept western democracies over the past two decades or so (Pollitt 1995). By subjecting public service delivery to competition, quasi-markets are intended to overcome the defects of state planning and provision, which are viewed as being wasteful, inefficient, inflexible, and unresponsive to client needs. Theoretically, quasi-markets are a means by which government can gain the benefits of markets and avoid their failures by still operating within a framework of public control and accountability (Le Grand & Bartlett 1993). They involve the separation of the purchaser and provider roles of government, and the use of contracts and market-like mechanisms to allocate public funds on a contestable basis.

In the Australian VET sector, the main market mechanisms are competitive tendering and User Choice. Competitive tendering, under which providers bid against each other for government contracts to deliver training, was adopted in all State jurisdictions from 1995. By 1999, competitive tendering was being used to allocate about 5% of recurrent funds for VET delivery, which declined slightly thereafter. An additional 3% of total VET revenue was derived from fee-for-service provision for government agencies other than State Training Authorities. User Choice – a quasi-voucher scheme that enables employers with their apprentice or trainee to choose their providers and elements of training content and delivery – was implemented nationally from 1998 and was used to allocate around 18% of national recurrent VET funds in 2001. However, not all User Choice funds were open to competition, as caps were imposed on private RTO apprentice/trainee numbers in some State jurisdictions in the late 1990s.

In consequence, the process of market reform that government initiated in the early 1990s has substantially altered the structure, composition and dynamics of the VET sector. By 2001, government revenue allocated via non-competitive (profile) processes accounted for only 65% of TAFE’s total VET revenue, down from about 82% in 1992. Revenue from quasi and commercial markets accounted collectively for 30% of total VET revenue in 2001, almost double what it had been at the outset of market reform. The remaining 5% was derived from student fees and charges. From 1997-2001, payments to non-TAFE providers grew by a remarkable 87% nationally. In 2001, they won 44% of contestable funds nationally, almost 8% of total recurrent VET revenue.

Despite the scale and significance of market reform in VET, there has been no comprehensive evaluation of its outcomes to date. User Choice was evaluated nationally, but at an early stage of implementation (KPMG 1999). State Government reviews have shed some light on market impacts and trends (e.g. Bannikoff 1998; Schofield 1999a, 1999b, 2000; Smith 1998), but were also premature and restricted in

focus and scope (Anderson 2000). Concerns about adverse impacts on quality prompted the 2000 Senate inquiry to recommend an independent national evaluation of competition and User Choice in VET. No such evaluation has since been undertaken. Paradoxically, despite the emphasis of market advocates on the need for measurable outcomes, market reform itself has not been subjected to the same logic.

The purpose of this paper is to report some key findings of the first national evaluation of the impact and outcomes of market reform in VET. Funded by the NCVER, the study was conceived in recognition of the need for a broad-scale evaluation of market reform in VET, in particular competitive tendering and User Choice.

### **Research aims and methodology**

The main aims of the study were to examine the structure, composition and dynamics of contestable or quasi-markets for VET; assess the impact and effects of market reform on providers and clients; and evaluate the outcomes of market reform in VET. It also aimed to identify strategies for improving market operation and outcomes. Due to space constraints, this paper focuses only on key findings about the extent to which market reform in VET has produced the intended outcomes and putative benefits.

The evaluation framework for the study comprised criteria derived from quasi-market theory (Le Grand & Bartlett 1993), which correspond with the intended outcomes of market reform in VET, as follows: choice and diversity, efficiency, responsiveness, quality, flexibility, innovation, and access and equity. As Pollitt (1995, p.136) observes, 'Intended effects (impacts, outcomes) are of interest in themselves, but have the useful property of indicating (implicitly or explicitly) the criteria by which policy-makers apparently wish to be judged.' It also included some criteria for assessing the extent to which existing VET markets satisfy the pre-conditions for effective quasi-markets. In these respects, therefore, the study primarily evaluated market reform on its own terms.

The major data source was a national survey of senior managers of Registered Training Organisations (RTOs), including TAFEs, in late 2001. A sample of 2,581 RTOs yielded 842 useable survey returns, representing a 33% response rate. Although a reasonably sound basis for evaluating the outcomes of market reform, the survey tool had a number of limitations relating to: cause-and-effect attribution; the lack of comparative before-and-after data; and the partial and subjective nature of senior manager perspectives.

### **Findings and discussion**

The introduction of market mechanisms was found to have triggered complex chains of interactive effects that were often difficult to interpret. The conclusions reached about the outcomes of market reform in VET are tentative, due to the broad-scale nature of the study and limitations in research methodology. The study identified several benefits and costs of markets in VET. Some of the purported benefits of market reform remain unproven, even if not yet entirely disproved. Additional data are required before clear-cut conclusions can be reached. On balance, however, the weight of available evidence suggests that the accumulation of current trends is tipping the scales away from positive towards negative outcomes. The main findings are discussed below under sub-headings that correspond with the evaluation criteria and intended outcomes of market reform.

### *Choice and diversity*

The research suggests that choice and diversity have increased in the VET sector as a result of market reform, although not to the same degree in all market sectors or for all VET clients. On the supply side, the number and range of providers has expanded, giving clients access to a potentially wider range of choices. Choice is relatively more restricted in rural/regional areas, as only one third of all RTOs are located outside metropolitan areas. However, substantial numbers of RTOs were found to be competing for business in rural/regional markets beyond their own locality. Despite this, the existence of thin markets is a major problem, especially in remote areas. In such areas, choice is highly restricted, and in some cases non-existent. This suggests that quasi-markets in VET are generally unviable in remote areas and many rural/regional areas.

The extent to which market reform has improved the range and diversity of VET programs and services is less clear-cut. Overall, the range of training options was found to have increased under competitive tendering, and to a larger extent under User Choice. However, the evidence also suggests that full fee-paying clients may enjoy a wider range of training options and greater scope for choice than government-funded students. In the drive for efficiency in the face of low (or below-cost) unit prices and high transaction costs, it appears that the choice of whole courses and within-course training options for government-funded students may have diminished in TAFEs.

The research suggests that the market power of clients to exercise choice, and thereby influence training outcomes, has increased under User Choice, but not competitive tendering. However, two qualifications are required. Firstly, the content-related choices open to User Choice clients are restricted to a pre-determined range of industry-mandated competency standards and packaging specifications in Training Packages. Secondly, other research suggests that the employer alone, rather than in conjunction with the apprentice or trainee, exercises choice-making power (Schofield 2000).

### *Efficiency*

Efficiency is one of the more difficult outcomes to measure. The survey produced some evidence of efficiency gains, but these appear to be predominantly internal to providers, and generally confined to specific administrative and financial processes. The bulk of evidence from the survey however suggests that neither crude (i.e. reductions in total costs of service delivery) nor productive (i.e. more outputs per unit cost) efficiency has ensued from training market reform. A majority of both TAFEs and RTOs indicated that the costs of training delivery have not declined, and that public VET funds are not used more efficiently under both tendering and User Choice arrangements. Despite the fact that providers have been rationalising and streamlining internal administrative and planning systems and processes – in addition to implementing a wide range of cost-reduction strategies – high transaction costs, and greater complexity and uncertainty in quasi-markets, appear to have discounted or cancelled out any efficiency gains.

As a consequence, a substantial majority of both TAFEs and all RTOs indicated that increased transaction (e.g. administrative and marketing) costs outweigh reductions in delivery costs under contestable funding arrangements. Government efficiency drives – such as the Commonwealth ‘growth through efficiencies’ policy and State/Territory government efficiency dividends – have also taken their toll on TAFEs. However, the

evidence provided by non-TAFE RTOs (who are not directly subject to such policies) suggests that the negative efficiency outcomes can be largely attributed to the effects of market reform. Overall, the accumulation of such effects appears to have eroded potential efficiency gains from VET markets at a systemic level.

Contrary to policy makers' claims (ANTA 1996), the findings suggest that the reformation of the publicly funded VET system along market lines involves ongoing costs that appear to be having counter-productive effects on efficiency, quality, and access and equity outcomes. In particular, the vast majority of TAFE and non-TAFE RTOs identified the high transaction costs as a major problem – not only because they exceed any efficiency gains, but also because they divert resources from training delivery to administration and marketing with adverse implications for quality.

Evidence that the quality of provision may have declined in TAFE under contestable funding arrangements suggests that productive efficiency, or 'value for money', has not been achieved, even though TAFEs are delivering a larger quantity of training per unit cost. The research data are insufficient to enable an assessment of the extent to which gains in productive efficiency have been achieved in the non-TAFE sector. Even if they have been, the fact that TAFEs continue to deliver the lion's share of publicly funded VET suggests that any efficiency gains in the non-TAFE sector are likely to have had only a marginal impact at a systemic level. Moreover, the increasing reliance of a large proportion of private providers on government funding suggests that contestable funding processes may have resulted in unnecessary duplication between public and private VET providers, with potentially adverse implications for systemic efficiency.

### ***Responsiveness***

Survey responses suggest that provider responsiveness to client needs has almost universally increased as a direct consequence of market reform in VET. In general, responsiveness to client needs has increased to a greater extent under User Choice than competitive tendering. Closer and more direct relations between providers and clients have also been achieved under both market mechanisms. However, the survey findings show that some client groups have fared better than others. Specifically, the data suggest that employers, rather than individual students or apprentices/trainees, are the major beneficiaries of increased responsiveness under competitive tendering and User Choice. To the extent that enterprises are defined as the 'key clients of the training market' (ANTA 1996, p.7), the findings suggest that market reform has produced the main outcome sought by government. As with any government policy in a democratic system, however, the decision to prioritise enterprise needs over others in the publicly-funded VET system is open to question. The legitimacy of an enterprise-driven VET system has been critiqued elsewhere (e.g. Anderson 1998; Billett 2004).

On closer analysis, the findings show that the needs of some enterprises have been satisfied better than others. Access for medium/large enterprises appears to have improved to a greater degree than it has for small enterprises, although a small majority of RTOs indicated that access for small enterprises has improved under User Choice. Neither market mechanism has improved access to TAFE for local/surrounding communities, although they appear to enjoy better access in some cases to non-TAFE RTOs. In effect, market reform in VET has been comparatively more successful in

increasing responsiveness to the needs of medium/large enterprises than it has been with respect to individual clients, small enterprises and local/surrounding communities.

Other outcome measures also cast the greater responsiveness promoted by market reform in a more problematic light. Market reform has increased the capacity of a majority of TAFEs to satisfy the needs of full fee-paying clients, but not government-funded clients. The converse applies to RTOs as a whole. According to a majority of TAFEs, neither market mechanism has improved the supply of skilled labour to industry, suggesting that the potential for skills shortages may increase over the medium to long term. Finally, a large majority of both TAFEs and RTOs as a whole said that neither market mechanism has increased employer investment in VET, despite this having been identified in official policy statements as a consequential outcome of increased provider responsiveness to industry needs. The survey data also suggest the need for an examination of the extent to which market reform may have encouraged cost-shifting by enterprises and substitution of public for private training resources.

### *Quality*

The survey findings are somewhat equivocal on the question of whether the purported quality outcomes of market reform have eventuated. From a TAFE perspective, quality has not improved, and appears to have declined under both competitive tendering and User Choice. After increased transaction costs, a decline in the quality of VET provision was identified by both TAFEs and RTOs as a whole as one of the main negative outcomes of market reform. Although inconclusive, the survey data suggest that quality may have improved for a small proportion of non-TAFE RTOs, although more so under User Choice than competitive tendering arrangements.

Other circumstantial evidence pointing to a potential decline in quality includes the findings that a large proportion of TAFEs and all RTOs are: less inclined to share information and resources (due to commercial confidentiality considerations); diverting resources from training delivery to both administration and marketing (as a consequence high transaction costs); and giving higher priority to cost-reduction than quality improvement. Although a direct causal relationship cannot be established, the survey found that market reform has also been accompanied by reductions in expenditure by a significant proportion of TAFEs on key inputs that are likely to affect the quality of provision, including: direct delivery (i.e. teaching/training); infrastructure maintenance (facilities/equipment); curriculum development and maintenance; and student services. Also, the cost-reduction strategies implemented by most TAFEs (e.g. larger class sizes, reduced student contact hours, increased contract/casual teachers) may well have eroded the basis for quality provision. These trends suggest that the net effect of market reform may be to force TAFEs, if not non-TAFE RTOs, to substitute cheapness for quality.

Although a majority of all RTOs felt that skill outcomes for students and apprentices/trainees have improved in VET markets, a larger majority of TAFEs disagreed. A substantial majority of both TAFEs and non-TAFE RTOs also indicated that, as a consequence of increased contestability, their training provision is driven more by financial/commercial imperatives than by educational/skills formation objectives. Overall, the balance of evidence suggests that market reform has not improved quality in TAFE, but may have done so for some non-TAFE RTOs.

### ***Flexibility and innovation***

Market reform appears to have achieved consistently positive outcomes against two key policy objectives: flexibility and innovation. A sizable majority of both TAFEs and RTOs as a whole indicated that the flexibility of training delivery has increased, though to a greater extent under User Choice than competitive tendering. Significant majorities of both provider types indicated that product development and delivery is also more innovative as a result of market competition. Examples of such outcomes include the development of new products and services for niche markets, and the implementation of flexible delivery systems.

### ***Access and equity***

The access and equity outcomes of market reform in VET appear to be generally negative. The survey findings suggest that access for women, unemployed people and disadvantaged groups has not improved under contestable funding arrangements from either a TAFE or non-TAFE perspective. Moreover, despite increased responsiveness and flexibility, providers are generally no more able, or motivated, to satisfy the needs of designated equity groups or their local/surrounding communities than they were prior to market reform. More negative access and equity outcomes were reported by TAFEs than non-TAFE RTOs, and by rural/regional than metropolitan RTOs.

Other equity-related trends are a cause for further concern. A not insignificant proportion of both TAFEs and all RTOs indicated that they are more inclined to engage in the practice of ‘cream-skimming’ or adverse selection as a result of increased contestability. About half of all TAFEs and RTOs are also placing higher priority on attracting full fee-paying clients than government-funded training places. A small, but again not insignificant, number of TAFEs and all RTOs have increased fees and charges for government-funded students to a ‘major’ or ‘moderate’ extent. Overall, almost six in ten TAFEs, and four in ten RTOs as a whole, indicated that their VET provision is driven by efficiency objectives than by equity goals to a greater extent than prior to market reform. None of these trends is likely to enhance access and equity, and in combination may well have adverse consequences.

It is still too early to reach definitive conclusions about the access and equity outcomes of market reform in VET. More quantitative data are required about the access, participation and completion rates of disadvantaged and under-represented groups over time. Nonetheless, should the incremental tendencies revealed in this study remain unchecked, there is a risk that publicly-funded VET markets will become increasingly inaccessible and inequitable for women and disadvantaged groups, with negative implications for labour market participation and social inclusion.

### **Global impact of market reform**

Despite improvements in choice and diversity, internal efficiency, responsiveness, flexibility and innovation, the views of senior RTO managers were evenly divided over the question of whether market reform in VET has been a positive or negative development. From a sectoral perspective, the impact of market reform appears to have been more uneven. While a small net majority of private RTOs delivered a positive assessment of market reform, a net majority of both TAFEs (13%) and ACE centres

(15%) delivered a negative verdict. A large proportion (42%) of RTOs as a whole indicated that, on balance, market reform has had a neutral impact on their RTOs, compared to only 23% of TAFEs and 37% of ACE centres. Overall, market reform appears to have adversely affected a larger proportion of public than private RTOs.

Market reform also appears to be changing the values, priorities and motivations of VET providers in significant ways, with potentially adverse consequences for the public interest. As a result of market reform, TAFEs are driven more by efficiency and financial/commercial objectives than by equity and educational/skills formation objectives. Such findings confirm the observation by TAFE Directors Australia (1999, p.18) that: 'The emphasis in TAFE is now on "the bottom line" and "efficiency" – not quality delivery'. Overall, the imperatives of market competition appear to be overshadowing government policy and planning priorities as drivers of TAFE provision, in the process undermining the steering capacity of government. In effect, doing business and remaining financially viable seem to be incrementally supplanting the public interest role and responsibilities of TAFEs, if not government itself.

Internal efficiency gains may have been achieved as a result of market reform, but at what cost over the longer term? TAFEs have reduced production costs by switching to cheaper labour, increasing class sizes and reducing student contact hours. Such strategies are likely to diminish the depth and breadth of curriculum and teaching expertise in TAFE and decrease individualised attention for learners, thereby diluting quality outcomes. The long-term implications of reduced or deferred expenditure on curriculum development and maintenance, capital infrastructure, and student services in TAFE are as yet unknown. Collectively, they may well be contributing to a progressive 'hollowing out' of TAFEs as educational and community resources.

## **Conclusion**

Such developments have potentially major implications not only for the quality, responsiveness, flexibility and accessibility of VET, but also for the industries and communities that rely on TAFEs to underpin their social and economic capital through the provision of skilled workers and active citizens. The danger is that if such valuable resources reach a serious state of decay over time, only a massive injection of public funds could restore the public VET system to a standard required in a modern industrialised economy. With neo-liberal economics and public choice theory still ascendant, and with taxpayer support for 'big government' diminishing as a result, such a step may be neither financially viable nor politically feasible. So on balance, if what counts is what works, then markets in VET are failing to deliver the promised goods.

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